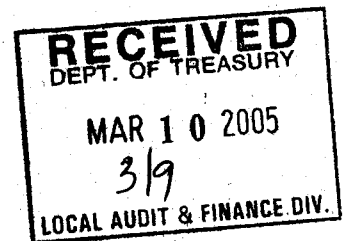


Region 2 Planning Commission

Financial Statements and
Independent Auditors' Report

Year Ended September 30, 2004



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Independent Auditors' Report

Board of Commissioners
Region 2 Planning Commission
Jackson, Michigan

We have audited the accompanying financial statements of the Region 2 Planning Commission as of and for the year ended September 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Region 2 Planning Commission as of September 30, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Region 2 Planning Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of October 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2004, on our consideration of Region 2 Planning Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Region 2 Planning Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The accompanying financial statements do not present a Management's Discussion and Analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Willis & Jurasek, P.C.

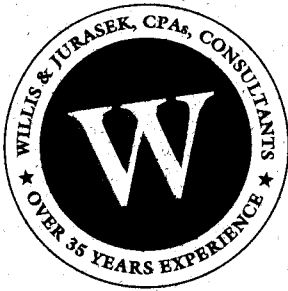
Willis & Jurasek, PC

November 17, 2004

WILLIS & JURASEK, P.C.

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**Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance With
Government Auditing Standards**

Board of Commissioners
Region 2 Planning Commission
Jackson, Michigan

We have audited the financial statements of the Region 2 Planning Commission as of and for the year ended September 30, 2004, and have issued our report thereon dated November 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Region 2 Planning Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Region 2 Planning Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Region 2 Planning Commission in a separate letter dated November 17, 2004.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.

Willis & Jurasek, P.C.
Willis & Jurasek, P.C.

November 17, 2004

WILLIS & JURASEK, P.C.

2545 Spring Arbor Road
Post Office Box 39
Jackson, Michigan 49204-0039

Region 2 Planning Commission
Statement of Net Assets
September 30, 2004

Assets:

Current assets:

Cash and cash equivalents	\$ 218,057
Accounts receivable	<u>239,235</u>
Total current assets	457,292

Property and equipment, net of accumulated depreciation	<u>55,143</u>
Total assets	<u>512,435</u>

Liabilities:

Current liabilities:

Accounts payable	147,454
Accrued salaries	13,298
Accrued compensated absences	33,269
Deferred revenue	<u>100,919</u>
Total current liabilities	<u>294,940</u>

Net Assets:

Invested in capital assets - net of related debt	55,143
Unrestricted	<u>162,352</u>
Total net assets	<u>\$ 217,495</u>

Region 2 Planning Commission
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2004

Revenues:

Grants:

Federal

\$ 199,995

State

66,357

Local

226,413

Membership and service fees

413,766

Contributed services

35,762

Other revenues

27,316

Total revenues

969,609

Expenses:

Salaries and wages

285,377

Employee benefits

74,126

Other direct costs

334,546

Indirect costs

256,172

Total expenses

950,221

Increase in Net Assets

19,388

Net Assets - Beginning of Year

198,107

Net Assets - End of Year

217,495

See Notes to Financial Statements.

Region 2 Planning Commission
Statement of Cash Flows
Year Ended September 30, 2004

Cash Flows from Operating Activities:

Increase in net assets	\$ 19,388
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	20,542
Net change in:	
Accounts receivable	(149,858)
Accounts payable	8,338
Accrued expense	(1,558)
Deferred revenue	(39,078)
Total adjustments	(161,614)
Net cash provided (used) by operating activities	(142,226)

Cash Flow from Capital and Related Financing Activities:

Additions to equipment	(5,919)
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Net Increase (Decrease) in Cash and Cash Equivalents	(148,145)
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Cash and Cash Equivalents - Beginning of Year	366,202
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Cash and Cash Equivalents - End of Year	\$ 218,057
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Region 2 Planning Commission

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Region 2 Planning Commission (the Commission) was established under Act 281 of 1945, the Michigan Regional Planning Commission Act, as amended. The Commission is a voluntary association of local units of government serving Hillsdale, Jackson, and Lenawee Counties. The primary purpose of the Commission is to prepare plans for the area and to serve as the planning, research, and advisory arm of governmental units.

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to local governmental units. Because the Commission provides a service to citizens and local governments that is financed primarily by user charges, membership fees and charges for services, the accounts of the Commission are accounted for as an Enterprise Fund, utilizing the full accrual method of accounting.

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. The Commission now follows the "business-type activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Commission's financial activities. There was no impact to the net assets of the commission in adopting GASB No. 34.

Enterprise Fund Accounting

The Commission uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Commission has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Accrual Basis

The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Budgetary Data

Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Commission because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Region 2 Planning Commission

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Budgetary Data (Continued)

Budget Process - The Commission uses no formal budgeting process at this time. The Director develops the budget based on both prior year results and knowledge of current year events. The budget is presented to the Board and approved prior to the start of the fiscal year. Amendments to the Commission's budget throughout the year are not presented to the Board; however, amendments to individual project budgets are subject to Board approval.

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The Commission reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Commission intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost. The Commission had no investments at September 30, 2004.

State statutes authorize the Commission to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Commission is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property and Equipment

Property and equipment are recorded at cost and depreciation is provided in amounts sufficient to depreciate the cost of fixed assets over their estimated service lives on a straight-line basis. Assets include office and computer equipment, and are depreciated on the straight-line basis over three to five years.

Deferred Revenue

Under the accrual basis of accounting, amounts that have been collected before the related service has been performed are classified as deferred revenues. The Commission's deferred revenues represent membership fees collected from local government units.

Region 2 Planning Commission
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Grant Revenues

Federal grants received are reimbursement-type grants that are recorded as receivables and revenues when the related expense is incurred.

Pension Plan

The provision for pension cost is recorded on an accrual basis. The Commission's policy is to fund pension costs as they accrue.

Compensated Absences

Commission employees earn and accumulate vacation and sick leave in varying amounts based on hours worked and length of service. Upon termination, employees receive payment for all unused vacation and 50% of available sick leave in accordance with established policies. Accordingly, the Commission recognizes the cost of earned compensated absences when the liability is incurred. Unused benefits are recorded as a current liability in the financial statements.

Net Assets

Net assets of the Commission are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Note 2 - Deposits and Investments

At year-end, the Commission's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Proprietary Activities</u>
Cash and investments	<u>\$ 218,057</u>

The breakdown between deposits and investments for the Commission is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 218,027
Petty cash and cash on hand	<u>30</u>
Total	<u>\$ 218,057</u>

Region 2 Planning Commission
Notes to Financial Statements

Note 2 - Deposits and Investments (Continued)

The deposits of the Commission were reflected in the accounts of financial institutions at \$235,856, of which \$198,304 was covered by federal depository insurance.

Note 3 - Accounts Receivable

The Commission's net accounts receivable at year-end is summarized as follows:

FHWA Section 112	\$ 41,725
UMTA/FTA Section 8	4,724
MDOT Section 253	7,538
Hazard material grant	14,950
Asset management	12,148
Members and other grants	<u>158,150</u>
	<u>\$ 239,235</u>

Note 4 - Capital Assets

Capital asset activity of the Commission's proprietary activities at year-end was as follows:

	Balance 10/01/03	Additions	Disposals	Balance 09/30/04
Capital assets being depreciated:				
Vehicles	\$ 14,019	\$ -	\$ -	\$ 14,019
Furniture and equipment	<u>127,008</u>	<u>5,919</u>	<u>-</u>	<u>132,927</u>
	<u>141,027</u>	<u>5,919</u>	<u>-</u>	<u>146,946</u>
Accumulated depreciation:				
Vehicles	14,019	-	-	14,019
Furniture and equipment	<u>57,242</u>	<u>20,542</u>	<u>-</u>	<u>77,784</u>
	<u>71,261</u>	<u>20,542</u>	<u>-</u>	<u>91,803</u>
Net capital assets being depreciated	<u>\$ 69,766</u>	<u>\$ (14,623)</u>	<u>\$ -</u>	<u>\$ 55,143</u>

Depreciation for the fiscal year ended September 30, 2004 totaled \$20,542.

Note 5 - Deferred Revenue

Deferred revenue reported in the accompanying Statement of Net Assets represents funds received from various member organizations and for the Jackson Traffic Safety Program for which matching expenses were not incurred as of year-end. One-third of membership fees are recognized as revenues of the Commission; two-thirds are restricted to fund-specific projects requested by the applicable member. Accordingly, deferred membership fee revenues represent the unexpended balances of the "two-thirds".

Deferred revenue at year-end is summarized as follows:

Member accounts	\$ 99,693
Jackson Traffic Safety Program	<u>1,226</u>
	<u>\$100,919</u>

Region 2 Planning Commission

Notes to Financial Statements

Note 6 - Defined Contribution Pension Plan

The Commission provides retirement benefits to all of its full-time employees through a 401k Defined Contribution Plan. The plan is administered by ICMA-RC. Employees are eligible to participate as of the following October 1st after the date of hire. Employer contributions are equal to 5% of wages for participating employees before any forfeiture related to non-vested employer contributions for terminated employees/participants. Employees make no contributions. Employees become fully vested after five years of service.

Employer contributions for the year-end amounted to \$18,544 based on approximately \$366,000 of covered wages and approximately \$409,000 of total wages.

The fair market value of the plan assets as of year-end was \$440,503

Note 7 - Indirect Cost Rate

Annually, the Commission determines a provisional indirect cost rate. On a monthly basis throughout the fiscal year, the rate is re-determined based on actual financial data and applied to the Commission's various activities and program elements. The Commission's final indirect cost rate is presented in an accompanying schedule.

Note 8 - Contributed Services

Contributed services consist of expenditures incurred by the City of Jackson and are reported in an amount equal to the required level of matching as follows:

	<u>FHWA</u> <u>Section 112</u>	<u>FTA</u> <u>Section 8</u>
Total expenditures	\$ 168,853	\$ 25,576
Matching level	<u>18.15%</u>	<u>20%</u>
Required match	<u>\$ 30,647</u>	<u>\$ 5,115</u>

Note 9 - Leases

The Commission leases its office space under a month-to-month lease. The terms of the lease call for payments of \$2,465 per month. The expense for the lease was \$30,663.

Note 10 - Contingent Liabilities

Under the terms of its federal and state grants, periodic audits may be required and certain costs may be questioned as not representing appropriate expenditures under the terms of those grants. Such audits could lead to reimbursement to the grantor agencies. The Commission's management believes any such disallowances, if any, would be minimal.

No questioned costs were disclosed by this audit.

Supplemental Information

Region 2 Planning Commission
Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2004

	FHWA - Section 112		FTA - Section 8(5303)		MDOT Section 253		Total
	Federal	Local	Federal	Local	98-0458	Other	
Revenues:							
Grants:							
Federal	\$ 138,206	\$ -	\$ 20,461	\$ -	\$ -	\$ 41,328	\$ 199,995
State	-	-	-	-	38,000	28,357	66,357
Local	-	-	-	-	-	226,413	226,413
Membership and service fees	-	-	-	-	-	413,766	413,766
Contributed services	-	30,647	-	5,115	-	-	35,762
Other revenues	-	-	-	-	-	27,316	27,316
Total revenues	<u>138,206</u>	<u>30,647</u>	<u>20,461</u>	<u>5,115</u>	<u>38,000</u>	<u>737,180</u>	<u>969,609</u>
Expenses:							
Salaries and wages, regular	61,566	-	9,213	-	15,542	199,056	285,377
Salaries and wages, overtime	-	-	-	-	-	-	-
Employee fringes	18,171	-	2,744	-	4,169	49,042	74,126
Other direct costs	2,679	30,647	69	5,115	4,243	291,793	334,546
Indirect costs	56,818	-	8,520	-	14,046	176,788	256,172
Less:							
Non-chargeable audit fee	(954)	-	(85)	-	-	1,039	-
Expenditures over grant amount	(74)	-	-	-	-	74	-
Total expenses	<u>138,206</u>	<u>30,647</u>	<u>20,461</u>	<u>5,115</u>	<u>38,000</u>	<u>717,792</u>	<u>950,221</u>
Net Income	-	-	-	-	-	19,388	19,388
Net Assets - Beginning of Year	-	-	-	-	-	198,107	198,107
Net Assets - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,495</u>	<u>\$ 217,495</u>

Region 2 Planning Commission
Schedule of Project Element Expenses - Budget and Actual
Year Ended September 30, 2004

	<u>FHWA - Section 112</u>		<u>FTA - Section 8(5303)</u>		<u>MDOT - Section 253 98-0458</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Transportation database management:						
Data monitoring and reporting	\$ 15,638	\$ 16,872	\$ 3,850	\$ 3,928	\$ -	\$ -
Transportation data system	4,769	4,944	913	966	-	-
Long-range transportation planning	12,655	10,819	1,645	1,169	-	-
Short-range transportation planning:						
TSM technical assistance	28,088	28,732	6,749	3,969	-	-
TSM corridor study	2,345	2,320	411	215	-	-
Transportation program management:						
Planning coordination	24,742	23,953	3,254	3,120	-	-
Improvement program	12,002	11,236	2,468	2,010	-	-
Program management	29,232	28,826	5,383	4,810	-	-
Planning work program	3,845	3,805	507	359	-	-
Safety conscious planning	4,890	7,727	-	-	-	-
HPSM update	-	-	-	-	1,900	1,801
Administration	-	-	-	-	1,700	1,759
Traffic counting	-	-	-	-	2,500	2,586
Public involvement	-	-	-	-	4,400	5,307
Technical assistance - MTF	-	-	-	-	23,250	22,306
Technical assistance - MDOT	-	-	-	-	4,250	4,241
Less:						
Non-chargeable audit fee	-	(954)	-	(85)	-	-
Expenditures over grant amount	-	(74)	-	-	-	-
	<u>\$ 138,206</u>	<u>\$ 138,206</u>	<u>\$ 25,180</u>	<u>\$ 20,461</u>	<u>\$ 38,000</u>	<u>\$ 38,000</u>

Region 2 Planning Commission
Schedule of Final Indirect Cost Rate
Year Ended September 30, 2004

	<u>Total</u>	<u>Direct</u>	<u>Indirect</u>
Labor and Fringes:			
Salaries and wages	\$ 405,558	\$ 285,377	\$ 120,181
Employee fringes	<u>107,916</u>	<u>74,126</u>	<u>33,790</u>
Total labor and fringes	<u>\$ 513,474</u>	<u>\$ 359,503</u>	<u>153,971</u>
Indirect Operating Expenses:			
Travel			5,854
Supplies			7,130
Professional services			7,219
Training			76
Telephone			4,489
Computer services			4,008
Printing and copying			2,372
Insurance			8,187
Equipment repairs, maintenance			6,490
Office rent			30,663
Publications, dues and subscriptions			3,930
Depreciation			20,542
Miscellaneous			<u>1,241</u>
Total indirect operating expenses			<u>102,201</u>
Total indirect costs			<u>\$ 256,172</u>
<u>Total Indirect Costs</u>	<u>\$ 256,172</u>	=	<u>71.2572%</u>
Direct Labor and Fringes	<u>\$ 359,503</u>		